STATE OF CALIFORNIA GA[illegible]M, *Governor*

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 17-12-004:

This is the proposed decision of Administrative Law Judge Haga. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 5, 2019, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.2(c)(4)(B).

/s/ ANNE E. SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:jt2

Attachment

Decision **PROPOSED DECISION OF ALJ HAGA (Mailed 11/4/2019)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of Pinnacles Telephone Co. (U1013C) to Review Intrastate Rates and Charges, Establish a New Intrastate Revenue Requirement and Rate Design, and Modify Selected Rates.	Application 17-12-004

DECISION APPROVING INTRASTATE RATES AND CHARGES; ESTABLISHING NEW INTRASTATE REVENUE REQUIREMENT AND RATE DESIGN; AND MODIFYING SELECTED RATES FOR THE PINNACLES TELEPHONE COMPANY FOR TEST YEAR 2019

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DECISION APPROVING INTRASTATE RATES AND CHARGES; ESTABLISHING NEW INTRASTATE REVENUE REQUIREMENT AND RATE DESIGN; AND MODIFYING SELECTED RATES FOR THE PINNACLES TELEPHONE COMPANY FOR TEST YEAR 2019

Summary

This decision adopts and approves a 2019 revenue requirement for Pinnacles Telephone Company, as summarized in the following table, and as discussed in greater detail throughout this decision and in the attached Appendix A and Appendix B:

Rate Case Item	Pinnacles' Proposal	Amount Adopted by this Decision
Operating Revenues	$690,261	$690,261
Operating Expenses	$621,315	$621,315
Average Rate Base	$772,933	$772,933
Rate of Return	8.92%	8.92%

This decision adopts an overall intrastate revenue requirement of $690,261 for test year 2019 including a subsidy draw of $436,052 from the CHCF-A. Further, this decision, among other things specifically: (1) adopts new rates for residential and business customers of Pinnacles that are reasonably comparable to the rates urban customers pay pursuant to Public Utilities Code Section 275.6(c)(3); and (2) authorizes a revenue requirement for Pinnacles based on sound analysis of the infrastructure and operational needs revenue sources and income, costs, and expenses, and deductions of Pinnacles.

Upon adoption of this decision the tariffed basic residential rates for Pinnacles will be set at $25 (exclusive of surcharges, fees or taxes) on July 1, 2020, and new rates for other Pinnacles services will be set as identified in this

decision. There will be no further adjustments in its residential or business rates until the next Pinnacles general rate case.

1. Background and Procedural History

In response to the General Rate Case (GRC) Application cycle for the Small Incumbent Local Exchange Carriers (Small LECs) listed in Group C in the California Public Utilities Commission (Commission) Decision (D.) 15-06-048 (*Rate Case Plan for General Rate Case Applications Filed by California High Cost Fund-A Recipients*, *hereinafter* Rate Case Plan), Pinnacles Telephone Company (Pinnacles) submitted this GRC Application (A.) 17-12-004 to the Commission on December 1, 2017.[1] In the GRC Application Pinnacles seeks: (1) Commission approval of its intrastate rates and charges for regulated intrastate telecommunications services; (2) to update its intrastate revenue requirement; and (3) to establish "a rate design that will give Pinnacles a reasonable opportunity to meets its revenue requirement."[2]

In its December 1, 2017 application Pinnacles requests a $53,473 reduction from test year 2009 intrastate revenue requirement of $763,744. Pinnacles claims that since 2009 federal interstate high cost universal service support has significantly decreased and that implementation of the Federal Communications Commission (FCC) intercarrier compensation reform policies have reduced intrastate access charges and intercarrier compensation revenues. As a result,

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[1] On September 21, 2017, the Commission's Executive Director granted Pinnacles' Rule 16.6 request for an extension of time to December 1, 2017, to submit its rate case application.

[2] Application at 1. (*See* Pub. Util. Code §275.6(b)(5) which defines revenue requirement for California High Cost Fund-A recipients as "the amount that is necessary for a telephone corporation to recover its reasonable expenses and tax liabilities and earn a reasonable rate of return on its rate base.")

Pinnacles proposes to increase rates for basic residential customers from $20.25 to $24 and increase rates for business customers from $30.25 to $35.85. Pinnacles also proposes to increase its draw from the California High Cost Fund-A (CHCF-A) from $357,274 (in 2018) to $457,881 in 2019. Thus, despite Pinnacles reducing expenses from its last rate case, the reductions in federal support and revenue is likely to result in increased costs to California and Pinnacles rate payers. The reduction in reliance on interstate support and revenue is also likely to result in long-term benefits and increased financial stability for Pinnacles and other similarly situated carriers in California. These benefits likely outweigh the increased costs sought by Pinnacles.

No protests were submitted.

A prehearing conference (PHC) was set by ruling dated July 17, 2018. On August 1, 2018, the PHC was held to discuss the issues of law and fact and determine the need for hearing and schedule for resolving the matter. After considering the application and accompanying proposed written testimony and discussion at the prehearing conference, the issues and schedule of the proceeding was set forth in the scoping memo issued on October 15, 2018.

The issues identified in the Scoping Memo were:

1. Operating Expenses
    a. Including whether corporate expenses exceed the rebuttable presumption as to the limit of those expenses established in D.14-12-084; and
    b. Including a breakdown of the revenue requirement including operating revenues, operating expenses, and rate base line items in a complete Test Year 2019 Results of Operations.
2. Safety Concerns or Considerations.
3. Service Quality.

4. Application of the Capital Structure and Cost of Capital determined in D.16-12-035, including the appropriate amortization of the rate case expenses.
5. Affiliate Transactions and Relationships, if any, including how affiliate transactions are handled currently as well as any new or modified requirements.
6. The Methodology Used to Determine the Rate Increase
    a. Rate base.
    b. Rate design.
        i. The estimate of sales, revenues, and uncollectibles
        ii. Determination of the appropriate levels to be paid by applicant's customers and appropriate level of supplemental intrastate funding
            1. Specifically whether the proposed $24 basic service rate and the $5 voice mail rate should be increased in order to balance what is fair to Pinnacles customers and the customers throughout the state that contribute to the CHCF-A.

On September 21, 2018, Pinnacles submitted a motion requesting the admission of its opening and supplemental testimony into the record of this proceeding. On that same date, Pinnacles submitted a separate motion to seal the evidentiary record. Pinnacles claimed that information in the confidential version of the testimony served contained information about its future capital plans, and "information regarding Pinnacles' revenues, expenses, investments, forecasts, services and plant that Pinnacles consistently holds as confidential."

In this decision we grant Pinnacles' motions to admit testimony served in this proceeding into the record of the proceeding. Pinnacles' requests of September 21, 2018 and October 31, 2018, to place confidential materials under seal are granted for three years from the date of this decision. During the three-year period, this information shall not be publicly disclosed except on further Commission order or by an Administrative Law Judge ruling. If a party believes that it is necessary for this information to remain under seal for longer than three years, that party may file new motions showing good cause for extending this order by nor later than 30 days before the expiration of this order.

Pinnacles's testimony did not contain a calculation of excess deferred tax reserve to be "flowed through" back to the ratepayers that conforms with the methodology the Commission has used in other proceedings.

Pinnacles utilized the "flow through method" to calculate the new federal income tax by adjusting the operating tax expense and deferred (income) tax reserve at the new 21% tax rate and applied this adjustment to reduce the level of the CHCF-A operating revenues. Under Pinnacles' method, the recalculated income tax caused a $18,915 reduction in Pinnacles' revenue requirement for Test Year 2019 from $710,266 to $691,351, and the equal amount of reduction in Pinnacles' CHCF-A support for Test Year 2018 from $456,876 to $442,598.[3]

While it did not recommend using the "normalization method," Pinnacles also provided an adjusted revenue requirement and CHCF-A support amount using that method where it considered the effect of excess deferred income tax reserve. Pinnacles states that under the "normalization method" for 2019, the revenue requirement is $690,913 and the CHCF-A draw is $438,845. This would be a reduction of $19,353 in Pinnacles' 2019 revenue requirement and a reduction of $19,013 in Pinnacles' 2019 CHCF-A draw when compared to its initial application.

[3] Supplemental Testimony at 5.

Neither of the Pinnacles' methodologies conforms to the methodology the Commission used in a number of resolutions for similarly situated companies, *see, e.g.,* Resolution T-17616 dated August 9, 2018 for Cal-Ore Telephone Company.[4]

Accordingly, by Ruling of October 19, 2018, Pinnacles was directed to provide the additional information that would allow the Commission to complete its review of the application. Pinnacles submitted further supplemental testimony including revised exhibits complying with the ruling on October 31, 2018.[5]

Also on October 31, Pinnacles submitted a motion requesting the admission of its opening, supplemental, and further supplemental testimony into the record of this proceeding. On that same date, Pinnacles submitted a separate motion requesting that the confidential versions of Pinnacles' testimony be submitted under seal. Pinnacles reiterated claims regarding the confidential version of the testimonies it made in its September 21, 2018 motion.

No public participation hearing was scheduled.

1.1. Customer Notice – Rule 3.2

As required by Rule 3.2,[6] Pinnacles complied with the Commission's Customer Notice requirements by timely notifying its customers on January 1,

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[4] *See also*, D.1904017 at 55-58 and D.19-06-025 at 19-22.

[5] *See,* Further Supplemental Testimony of Chad Duval, October 31, 2018 (hereafter Further Supplemental Testimony). Pinnacles also resubmitted proposed exhibits CD6 – CD-9 to comply the numbering and identification requirements of the Commission's Rules of Practice and Procedure Rule 13.7(a) and added exhibits CD-10 – CD-15 to concisely respond to the issues raised in the ALJ Ruling.

[6] All statutory references are to the California Public Utilities Code unless otherwise stated.

2018 by bill inserts (or by electronic link for customers who receive bills electronically) of the proposed rate increases to its services, and published Notice of its Application approved by the Commission's Public Advisor's Office in the Hollister Free Lance, a newspaper of general circulation on December 15, 2017. Pinnacles filed its Notice of compliance on January 12, 2018.

2. Pinnacles Telephone Company and Organizational Structure

Pinnacles is a small, family-run company created in 1955 to serve communities in and near San Benito and Paicines. Pinnacles currently has fewer than 250 access lines and serves an approximate 600 square mile area of San Benito County. Customer locations are distant from one another and span rugged, rocky terrain near the Coast Range Mountains, canyons, dense brush, and expansive ranch and agricultural lands. Pinnacles' territory includes the Pinnacles National Park and Bear Valley Cal-Fire Station, and Pinnacles provides service to Jefferson Elementary School.

Pinnacles Telephone Company is a wholly-owned subsidiary of Bryan Family Inc., which has no operations or other subsidiaries. Steven Bryan, Jr., is president and he runs the company with his wife and son.

3. Legal Policy Framework for this GRC

Public Utilities Code Section 451 provides that public utilities may demand and receive only just and reasonable charges, and must provide "adequate, efficient, just and reasonable service" in a way that promotes the "safety, health, comfort, and convenience of [their] patrons, employees and the public." Public Utilities Code Section 454 prohibits public utilities from making rate changes until they have made a showing before the Commission and the Commission has made a finding that the new rates are justified.

Responsibility for fixing rates is placed with the Commission, as "the primary purpose of the Public Utilities Act [] is to insure the public adequate service as [just and] reasonable rates without discrimination…."[7] Further, California has long recognized "the commission has the power to prevent a utility from passing on to the ratepayers unreasonable costs for materials and services by disallowing expenditures that the commission finds unreasonable."[8] Thus, "[i]t is settled that commissions have power to prevent a utility from passing on to the ratepayers unreasonable costs for materials and services."[9] Accordingly, our task is to determine what is just and reasonable, and disallow costs that are found to be unjust or unreasonable.

4. California High Cost Fund-A

Public Utilities Code Section 275.6 requires the Commission to minimize telephone rate disparities between rural and metropolitan areas to keep rates affordable in areas with lower population densities. As part of that responsibility, the Commission must continue to set rates charged by companies like Pinnacles in accordance with Sections 451, 454, 455, and 728.[10] In addition, pursuant to Public Utilities Code Section 275.6(c)(2), the Commission must:

> Employ rate-of-return regulation to determine a small independent telephone corporation's revenue requirement in a manner that provides revenues and earnings sufficient to allow the telephone

[7] Pacific Tel. & Tel. Co. v. Public Utilities Com. (1950) 34 Cal.2d 822, 826 [215 P.2d 441] (citations omitted).

[8] Pacific Tel. & Tel. Co. v. Public Utilities Com. (1965) 62 Cal.2d 634, 647 [401 P.2d 353, 361]. (*See*, Pub. Util Code § 728.)

[9] Pacific Tel. & Tel. Co. v. Public Utilities Com. (1950) 34 Cal.2d 822, 826 [215 P.2d 441] (citations omitted).

[10] Pub. Util. Code § 275.6(c)(1).

> corporation to deliver safe, reliable, high-quality voice communication service and fulfill its obligations as a carrier of last resort in its service territory, and to afford the telephone corporation a fair opportunity to earn a reasonable return on its investments, attract capital for investment on reasonable terms, and ensure the financial integrity of the telephone corporation.

Thus, the scope of this proceeding must include all relevant information necessary to determine whether the applicant's proposed revenue requirement and other requests are just and reasonable, and permit the utility to fulfill its duties under section 451.

The purpose of the CHCF-A is to provide a source of supplemental revenues to Small LECs whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.[11] In executing its responsibilities over the CHCF-A, the Commission has determined that "[u]niversal, reliable, affordable, service is critical to public safety and benefits the state as a whole."[12] The CHCF-A currently supports eligible small independent telephone companies in helping rural residents stay connected to essential services to maintain public health and safety.

The CHCF-A program is funded by a surcharge assessed on revenues collected from end-users of intrastate telecommunications services subject to surcharge. The Commission periodically reviews the program fund levels and adjusts the surcharge rate to ensure the program is sufficiently funded. All telecommunications carriers[13] and interconnected Voice-over Internet Protocol

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[11] *See* Pub. Util. Code § 275.6(c)(4)-(6).

[12] D.14-12-084 at 53.

[13] *See* Pub. Util. Code § 275.

service providers[14] are required to assess the CHCF-A surcharge rate. The rate is currently 0.35 percent assessed on revenues collected from end users for intrastate telecommunications services.[15]

In administering the CHCF-A program, the Commission must "ensure that rates charged to customers of small independent telephone corporations are just and reasonable and are reasonably comparable to rates charged to customers of urban telephone corporations."[16] Historically, "comparable" has meant that target rates for residential customers are not more than 150 percent of basic service rates for California's urban telephone customers. The "150 percent formula" was originally established in D.91-09-042, and the formula has been used in part to evaluate the reasonableness of rates charged to customers. In D.10-02-016, the Commission modified the 150 percent formula so that the Small Incumbent Local Exchange Carriers (ILECs)[17] were no longer required to charge up to 150 percent of the basic urban rate to qualify for CHCF-A support, instead setting the basic service rate for residential customers at $20.25 per month.[18] This requirement remained in effect until the Commission adopted D.14-12-084 in its CHCF-A rulemaking,[19] that deemed presumptively reasonable and

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14 *See* Pub. Util. Code § 285(c).

15 Resolution T-17453, issued on November 21, 2014, set a surcharge rate of 0.35 percent effective January 1, 2015.

16 Pub. Util. Code § 275.6(c)(3).

17 *See,* 47 U.S.C. § 251(c) and § 251(h).

18 D.10-02-016, Ordering Paragraph (OP) 3.

19 Rulemaking 11-11-007.

non-rebuttable a rate range of $30.00 to $37.00, for basic residential service, inclusive of additional charges such as federal and state fees and surcharges.[20]

Pursuant to Public Utilities Code Section 275.6(c)(7), the Commission must ensure that CHCF-A support for Pinnacles "is not excessive so that the burden on all contributors to the CHCF-A program is limited." In this GRC, as in all others, the Commission seeks to promote the public interest. Promoting the public interest in this case requires that the Commission carefully review the revenue requirement request of Pinnacles with an eye toward protecting not only ratepayers and customers of Pinnacles, but also all other carriers' customers that pay into the CHCF-A from which Pinnacles is requesting funding. In carrying out this responsibility, the Commission assesses whether Pinnacles has justified its revenue proposals, and disallows those proposals that have not been justified. In this case, Pinnacles has justified a majority of its proposals. In a few instances we have found Pinnacles proposals not justified we have made modifications as set forth below.

In its Application, Pinnacles requested a CHCF-A draw of $457,881 in this GRC for Test Year 2019, which is an increase from its currently authorized CHCF-A subsidy draw of $234,490. A number of factors contribute to the increase, and while most are minor increases or decreases, the largest factor driving the increased CHCF-A draw is the $270,737 reduction in federal support for intrastate purposes. (The decisions of the FCC to reduce support for carriers of last resort means that California consumers bear a greater share of the burden to ensure universal service throughout California. Fortunately, California has

[20] D.14-12-084, OP 9.

put in place procedures and programs to ensure no consumer will lose service due to the reduction in the federal universal service programs.[21])

4.1. Means Test for CHCF-A

The Commission limits CHCF-A support to amounts which would provide no more than either: 1) a utility's authorized intrastate rate of return, or 2) the utility's current funding level for the year for which CHCF-A is being requested, whichever is lower. The foregoing is determined by using a "means test."[22] The means test is based, in part, on at least seven months of recorded data which can then be compared to the utility's forecasted intrastate rate of return based upon its adopted Results of Operation for a particular year.

The CHCF-A support for a utility's test year is determined in its GRC decision. The CHCF-A support for Pinnacles's Test Year 2019 is $436,052 as reflected in Appendix A, line 7, Column D, and Appendix B, line 15, to this decision. Pursuant to D.91-09-042, "the means test shall not be applied to the determination of a LEC's CHCF-A funding levels following 12 months after a decision or resolution is rendered by the Commission in a LEC's general rate review proceeding."[23] Commission staff will rely upon the Results of Operation set forth in Appendix A to determine CHCF-A support, as permitted by D.91-09-042.

Based on our review of all the information in the record we are able to determine the Results of Operations for Pinnacles for the test year and that

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[21] *See*, Pub. Util. Code § 275(c)(4).

[22] *See* D.91-05-016 as modified and clarified by D.91-09-042.

[23] *See* D.91-05-016 as modified and clarified by D.91-09-042, Ordering Paragraph 2; *see also,* D.15-06-048, Appendix A, Table 1.

Appendix A represents an accurate reflection thereof. Accordingly, the Results of Operations (Appendix A) shall be adopted for Pinnacles for all purposes consistent with established and historical GRC processes practiced by all Commission Industry Divisions, including Communications Division.

5. Discussion

5.1. Operating Expenses

In its Application, Pinnacles proposes a revenue requirement of $690,261.[24] This incorporates costs such as $621,315 in anticipated intrastate regulated expenses and property taxes, and a return on rate base of $68,946 based on a total rate base of $772,933.

Throughout the consideration of this application, Pinnacles provided updated breakdowns of the revenue requirement including operating revenues, operating expenses, and rate base line items in a complete Test Year 2019 Results of Operations.[25] Pinnacles corporate expenses do not exceed the rebuttable presumption as to the limit of those expenses established in D.14-12-084.[26]

In response to a question posed at the prehearing conference, Pinnacles included in its Supplemental Testimony justification for amortizing rate case costs over a three-year period.[27] As noted in D.19-04-017 the Commission has

[24] Further Supplemental Testimony at CD-14 (October 31, 2018). The proposed revenue requirement is a decrease of $73,483 from its last rate case in 2009. *See* Resolution T-17158, January 29, 2009 at 1 and Appendix C.

[25] *See*, Opening Testimony of Chad Duval at CD-1 (December 1, 2017), Supplemental Testimony at CD-1 (September 14, 2018), and Further Supplemental Testimony at CD-14.

[26] Opening Testimony of Chad Duval at CD-24.

[27] Supplemental Testimony at CD-6 - CD-9, *see also*, Further Supplemental Testimony CD-10 – CD-15.

repeatedly included rate case costs in the corporate expense cap.[28] Accordingly, we find that Pinnacles' rate case costs should be included within the corporate expense cap.

5.2. Safety Concerns or Considerations

Telecommunications companies provide access to vital voice, broadband and 911 services for customers and the community at large. During an emergency, the communication services provided to emergency responders is a critical function of a communications provider. Further, the increased risk of catastrophic wildfires poses a threat to communities and property throughout the state.[29] As Pinnacles explains in its testimony, its service territory is characterized by rugged, rocky terrain near the Coast Range Mountains, canyons, and dense brush areas,[30] and Pinnacles service territory includes areas deemed as elevated risk by the Commission.[31] Such conditions necessitate proactive enforcement by this Commission, as it works together with its sister agencies in coordinated action across our government to address the adverse impacts of disasters, like wildfires.

Accordingly, Pinnacles must continue to document all its emergency training and exercises. Pinnacles must also continue to maintain two routes for interconnection with AT&T. We have found no issues at this time with Pinnacles' 911 Emergency Services. One issue that was not fully addressed in its testimony was mutual aid agreements with other utilities, emergency

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[28] *Citing,* D.14-12-084 and D.16-06-053 at 41.

[29] Assembly Bill 1054 (Ch. 79, Stats.2019).

[30] Opening Testimony of Stephen R. Bryan Jr. at 4.

[31] *See,* CPUC Fire-Threat Map, adopted Jan. 19, 2018.

responders, and local organizations. We encourage Pinnacles to establish such agreements to the extent they are not already in place, and to document those agreements in its next general rate case. Such agreements serve two important public interest purposes. First, such agreements help entities like the California Departement of Forester and Fire Protection (CalFIRE) and the California Governor's Office of Emergency Services (CalOES) promote a greater public safety response in areas served by Pinnacles, which are increasingly susceptible to wildfires. Second, it will support the residents in the communities served by Pinnacles as it shares information, planning, and preparation information with its customers. Pinnacles should include any cost recovery requirements for such activities in its next general rate case filing and include an analysis justifying the costs it seeks to recover.

5.3. Service Quality

General Order (GO) 133-D establishes uniform minimum standards of service to be observed in the operation of public utility telephone corporations.[32] Pinnacles complies with these requirements through the use of a digitized trouble reporting system to record and track all trouble reports. Pinnacles provided its GO 133-C/D reports for 2012 through 2016 in its testimony that show Pinnacles met the standards for those years.[33] The record reflects sufficient evidence to indicate Pinnacles will continue to meet the service quality standards for the period of its general rate case.

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[32] D.16-08-021 (as corrected by D.16-10-019) adopted GO 133-D to replace GO 133-C.

[33] Opening Testimony of Steven R. Bryan Jr. at 17-20, SB-2.

5.4. Application of the Capital Structure and Cost of Capital

For purposes of calculating Pinnacles' 2019 test year revenue requirement, Pinnacles applied the 8.92 percent cost of capital that the Commission adopted in D.16-12-035.[34] Pinnacles would apply that cost of capital to a $690,261 intrastate revenue requirement based on an overall rate base of $772,933.[35]

In considering Pinnacles capital and annual expenses we specifically scoped in the issue of amortization of the rate case expenses given the amount of those expenses as part of Pinnacles overall expenses. Pinnacles proposes a three-year amortization of rate case expenses.[36] We determine that these expenses are already considered in the corporate expense cap. The Commission adopted the FCC's corporate expense caps in D.14-12-084 to reduce the burden of litigation costs on ratepayers, stating, "[a]dopting and applying the FCC Corporate Expense Cap will cap the amount of corporate expenditures that can be recovered from the CHCF-A program, and create incentives to align expenditures with the cap to reduce rate case litigation costs." This holding from D.14-12-084 was most recently applied in D.19-04-017 where the Commission included rate case expenses in the corporate expense cap.[37] The Commission has consistently determined an applicant's rate case expenses should be included within the corporate expense cap. Pinnacles has not persuaded us that an

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[34] D.16-12-035, *affirmed, The Ponderosa Telephone Co., et al. v. California Public Utilities Commission*, 36 Cal.App.5th 999, 249 Cal.Rptr.3d 200 (June 18, 2019).

[35] Opening Testimony of Steven R. Bryan Jr. at 7, SB-2, Further Supplemental Testimony Exhibit CD-14.

[36] Duval Supplemental Testimony at 6-7.

[37] D.19-04-17 at 38-39, citing D.1606-053.

exception should be made in its case. Consistent with D.14-12-084, D.16-06-053, and D.19-04-017, we find Pinnacles' rate cases expenses should be included with the corporate expense cap.

Another issue considered in Pinnacles' capital and annual expenses was the change to the federal corporate income tax rates that occurred after its application was submitted. On December 22, 2017, federal legislation was passed,[38] that results in comprehensive changes to Pinnacles' financial statements. The most notable impact is the reduction in the federal corporate tax rate to 21 percent, effective January 1, 2018. We note the small LECs have historically filed GRCs with a 34 percent tax rate calculated for their revenue requirement.[39] In addition, the change in the federal corporate tax income rates results in excess net deferred income tax liabilities, which must be normalized for ratemaking purposes. Here, we apply the new federal rate of 21 percent to forecast federal corporate income tax expenses for Test Year 2019 and accordingly reduce the revenue requirement calculation.

In response to questions about the impact of the federal corporate income tax changes raised by the Administrative Law Judge at the Prehearing Conference Pinnacles *sua sponte* served Supplemental Testimony on September 14, 2018. However, Pinnacles' initial attempt to address the changes to the federal corporate income tax changes did not adequately address return of any excess deferred taxes to ratepayers. In an October 19, 2018, Ruling, the

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[38] The Tax Cuts and Jobs Act of 2017, formally known as, "*To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, H.R. 1 (Tax Act).*" enacted December 22, 2017.

[39] *See*, D.19-04-017 at 55.

Administrative Law Judge directed Pinnacles to provide a calculation of excess deferred tax reserve to be "flowed through" back to the ratepayers that conforms with the methodology the Commission has used in other proceedings. Pinnacles provided that information in Further Supplemental Testimony served on October 31, 2018. Pinnacles was uncertain[40] as to whether calculations should begin in 2018 (consistent with Resolution T-17617 and guidance from the National Exchange Carrier Association (NECA)[41]), or begin with Test Year 2019, so it provided calculations for both starting points.[42]

Pinnacles argues that the calculation should start with 2019. We disagree. Deferred income tax reserves are the accumulation of differences between regulatory tax expense and federal tax liabilities. Deferred tax reserves are ratepayer funds collected by the utility to account for future tax expenses, which for ratemaking purposes represent funds that ratepayers have provided to the utility for income taxes presumably to be paid in the future, due to timing differences between straight line depreciation for ratemaking and accelerated depreciation for income tax filings. Through 2017, Pinnacles accumulated a fund balance using the prevailing tax rate of 34 percent. Once the federal income tax rate was reduced to 21 percent,[43] a lower amount of ratepayer funds is needed to pay those future tax liabilities, and thus these excess funds should be reflected in *future* rates charged to Pinnacles' ratepayers.

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[40] Further Supplemental Testimony at 3.

[41] NECA works with the FCC and is responsible for interpreting federal separations and accounting requirements, *see,* 47 C.F.R. Part 69.

[42] Further Supplemental Testimony at CD-14 and CD-15.

[43] The Tax Cuts and Jobs Act of 2017.

Pinnacles argues that proposal violates the prohibition against retroactive ratemaking.[44] Pinnacles claims that deferred tax reserves are accruals made by the company for liabilities incurred in a given year, but which are not payable in a future year.[45] Pinnacles claims that costs will naturally differ from projections, and the Commission has no authority to authorize retroactive adjustments, in either direction, to account for these differences.[46] Pinnacles' retroactive ratemaking argument is incorrect in that there is no change to past rates; the Commission is applying longstanding ratemaking law in recognizing that Pinnacles has a continuing asset, funds collected for future tax liabilities, that Pinnacles need not charge ratepayers as much for in this ratemaking cycle.

Pinnacles' arguments that normalizing excess deferred income tax constitutes retroactive ratemaking are not persuasive. Pinnacles creates a legal fallacy in arguing that adjustments to prior period rate base components are occurring. To be sure, retroactive ratemaking occurs when rates approved at present or in the future are given an effective date from the past. Normalizing excess deferred tax for future rate determination does not constitute retroactive ratemaking; rather, this is prospective ratemaking. The deferred income tax reserve in Pinnacles' case is a fund that has been established by ratepayers in excess of Pinnacles' actual, lower future tax liability. This excess deferred income tax reserve is distinguished from the rate base for ratemaking purposes, year after year. Carrying this reserve, as Pinnacles has, is neither considered nor is constituted as retroactive ratemaking. Therefore, the normalization of the excess

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[44] Supplemental Testimony at 2-3, Opening Brief of Pinnacles at 10-12.

[45] *Id.* at 10.

[46] *Id.* at 11.

income tax reserve that resulted from the federal tax cut of 2017 for future ratemaking does not constitute retroactive ratemaking. Accordingly, we determine that excess deferred income taxes (ratepayer funds collected by the utility to account for future tax expenses) should be used to reduce future costs to ratepayers.

In various resolutions including Resolution No. T-17616, T-17617, T-17618, T-17619, and T-17626, we authorized normalization of excess income tax reserve that resulted from the federal tax cut of 2017. We reached the same conclusion earlier this year in Decisions 19-04-017 (at 57-58) and 19-06-025 (at 21-22). In Resolution T-17617, we held: "[d]eferred income taxes for ratemaking represents funds that ratepayers have provided to the utility for income taxes presumably to be paid in the future, due to timing differences between straight line depreciation for ratemaking and accelerated depreciation for income tax filing." The Commission has been consistent that excess tax reserves must flow through back to ratepayers. Prior Commission action taken during the 1986 Tax Act ordered the utilities to flow excess tax reserves back to ratepayers. We therefore order Pinnacles to flow excess tax reserves back to ratepayers. To be consistent with Commission policy and NECA guidelines, we adopt the adjustment of $3,258 for Excess Tax Reserve Offset.[47]

Pinnacles' initial "flow through" methodology would be contrary to Internal Revenue Service (IRS) normalization rules, as Pinnacles' initial method

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[47] Further Supplemental Testimony at CD-14.

effectively reduces the excess tax reserve to zero instantly.[48] Under normalization rules, excess deferred taxes should instead be flowed through ratably over the life of the timing difference that gave rise to the excess. Consequently, the impact of reducing past accumulated excess deferred taxes should increase the projected tax savings.[49]

In May 2018, the Small ILECs submitted a letter to the Communications Division's Director, citing a material change in the NECA's interpretation of how federal rules are to apply to deferred tax calculations in light of the Tax Cuts and Jobs Act of 2017. The letter revised/updated previous guidance that it provided to carriers in a January 2018 letter. The May 2018 NECA interpretation requires regulated utilities to "follow the normalization method of accounting and flow back the excess deferred taxes ratably over the life of the timing difference that gave rise to the excess."

Therefore, it appears a further reduction in Pinnacles' revenue requirement is needed to account for the change in excess deferred taxes consistent with normalization rules, along with removal of the entire excess deferred tax balance from rate base. NECA's revised interpretation of the federal tax change and deferred taxes supports the adjustment as well. As noted above, Pinnacles provided updated breakdowns of the revenue requirement including operating revenues, operating expenses, and rate base line items in a complete Test Year

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[48] *See*, Supplemental Testimony at 5 ("a reduction of $18,915 in Pinnacles' 2019 revenue requirement and a reduction of $15,278 in Pinnacles' 2019 CHCF-A draw, when compared to Pinnacles initial application.").

[49] *See*, Supplemental Testimony at 6 ("a reduction of $19,353 in Pinnacles' 2019 revenue requirement and a reduction of $19,031 in Pinnacles' 2019 CHCF-A draw, when compared to Pinnacles initial application.").

2019 Results of Operations, and we adopt the updated figures provided by Pinnacles.

5.4.1. Plant Investments

After Pinnacles had filed this application it identified the need to replace a microwave radio critical in the operation of its network. In its Supplemental Testimony Pinnacles explains why it needs to replace the system.

The microwave system is used to transport voice and data traffic between the Pinnacles central office, its Big Mountain radio facility, and the New Idria location. The microwave system provides connectivity to five Remote Data Terminals in the New Idria exchange, two Remote Data Terminals at the Pinnacles National Park West Entrance, and one Remote Data Terminal at the Big Mountain radio facility. The system must be replaced as Pinnacles used its last spare Transmit/Receive module after its application was filed, and when Pinnacles attempted to order a new spare module, it was informed the manufacturer had discontinued making replacement modules. Pinnacles believes the Transmit/Receive module is likely to remain operational for the next 1-2 years, and it has spare parts on hand for other components of the microwave facilities. Thus, Pinnacles believes it is prudent to replace the microwave system with a comparable new system in this general rate case cycle. We agree.

Pinnacles believes the cost of the equipment, engineering, and installation will be similar to the $105,000 it paid for the existing equipment in 2009. Pinnacles explains that there will be no impact on depreciation expense in Test Year 2019, but the addition of the new equipment will increase the total rate base in 2019 by $52,500 and the intrastate rate base by $31,753. Pinnacles also proposes to increase the 2019 intrastate revenue requirement by $3,933, and increase the CHCF-A draw by the same amount. We agree with Pinnacles analysis and the figures adopted in Appendix A reflect these additions.

5.5. Affiliate Transactions and Relationships

There are no affiliate transactions or relationships presented in the applications. Pinnacles is reminded that if any affiliate transactions occur, Pinnacles must comply with our affiliate transaction requirements (*see, e.g.*, D.16-06-053, D.19-04-017).

5.6. TheMethodology Used to Determine the Rate Increase

Rate base represents the amount of investment less depreciation reserve, deferred taxes, and customer deposits that is necessary for the company to provide safe, reliable, voice service and access to broadband-capable network to its customers. Pinnacles' revenue requirement includes a rate of return on the Rate Base of 8.92 percent.

While Pinnacles' expenses have decreased since its 2009 test year general rate case, it has seen a more substantial decline in revenue, most notably the reduction in federal universal service support and access charges. Pinnacles' proposed a reasonable balance of network enhancements, maintenance, and investment to satisfy its ongoing obligation as a carrier of last resort.

As discussed above, we adopt the revenue requirement and rate base presented in Exhibit CD-14 that shows both the normalization method of accounting that flows back the excess deferred taxes ratably over the life of the timing difference that gave rise to the excess and the addition of the replacement microwave facility. We replicate those figures in Appendix A and adopt that Results of Operations or Pinnacles Telephone Company. The Commission should rely upon the figures provided in Appendix A – "Pinnacles Telephone

Company, Test Year 2019 Results of Operations" to (1) perform the means test to determine Pinnacles' annual California High Cost Fund-A support beyond calendar year 2019, and (2) for all purposes consistent with established and historical GRC processes practiced by all Commission Industry Divisions, including the Communications Division. The California High Cost Fund-A support for test year 2019 should be the California High Cost Fund-A amount adopted and reflected in Appendix B to this decision, $436,052.

Specifically, we approve an intrastate revenue requirement of $690,261 consistent with a rate base of $772,933, and a rate of return of 8.92 percent adopted in D.16-12-035. We also approve a rate design that sets the single-line residential rates at $31.88, inclusive of state and federal fees and surcharges.[50] We are not persuaded by Pinnacles' argument that a $24 Local Service Rate component of the single-line residential rate would balance what is fair to Pinnacles customers and the customers throughout the state that contribute to the CHCF-A. We disagree with the premise that other communication consumers should pay more, even a small amount more, so that Pinnacles' subscribers would pay $1 less each month. More than sixty percent of Pinnacles' revenues will come from the CHCF-A, and other state programs address affordability and provide additional subsidies when appropriate. Thus, we approve a $25 Local Service Rate as part of the inclusive single-line residential rate. However, we agree with Pinnacles that the increase from $24 to $25 for basic residential service should not occur until July 1, 2020 to correspond to

[50] D.14-12-084. The $31.88 "inclusive" rate is based on a $25 Local Service Rate and the reduction or elimination of the federal Access Recover Charge. Pinnacles states that the $31.88 inclusive rate "falls at the lower end of the Commission's approved range of $30.00 to $37.00 per month." Opening Testimony of Chad Duval at 41.

changes that can only be made on July 1 of a calendar year to the interstate access recovery charge. Pinnacles provides a reasoned explanation as to why its basic service rate should increase only to $24 between the effective date of its new rates and the following July 1.[51] It is appropriate to recover the difference in rates from the CHCF-A between the time the $24 basic rate is effective and July 1, 2020 when the basic rate shall increase to $25.[52] Further, we approve a basic single-line business rate of $43.92,[53] and a multi-line business rate of $47.62, also inclusive of fees and surcharges.[54]

6. Potential Revenue Shortfall

This decision addressing Pinnacles' general rate case is not effective as of January 1, 2019, and we recognize that the revenue requirement is based on a full year of data. We anticipate a revenue shortfall could result in Pinnacles not being able to recover its full revenue requirement. In light of this, we authorize Pinnacles to submit a Tier 2 Advice Letter (AL) to the Commission's Communications Division within 30 days of the effective date of this decision to request revenue differential between January 1, 2019 and the first day of the next month following the adoption of this decision (effective date), through the CHCF-A Fund. The AL should provide a calculation to "true-up" the revenue differential.

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[51] Opening Testimony of Chad Duval at 42-43.

[52] Pinnacles ratepayers will continue to be charged an access recovery charge until July 1, 2020 at which point the access recovery charge will be reduced to $0.

[53] Based on a basic local exchange rate of $35.85 exclusive of fees and surcharges. Opening Testimony of Chad Duval at 40.

[54] Opening Testimony of Steven R. Bryan Jr. at 7, SB-2, Opening Testimony of Chad Duval at CD-1.

7. Conclusion

This decision authorizes a revenue requirement for Pinnacles, as summarized in the following table, and as discussed in greater detail throughout this decision, Appendix A and Appendix B:

Rate Case Item	Pinnacles' Proposal	Amount Adopted by this Decision
Operating Revenues	$690,261	$690,261
Operating Expenses	$621,315	$621,315
Average Rate Base	$772,933	$772,933
Rate of Return	8.92%	8.92%

This decision adopts an overall intrastate revenue requirement of $690,261 for test year 2019 including a subsidy draw of $436,052 from the CHCF-A. Further, this decision, among other things specifically: (1) adopts new rates for residential and business customers of Pinnacles that are reasonably comparable to the rates urban customers pay pursuant to Public Utilities Code Section 275.6(c)(3); and (2) authorizes a revenue requirement for Pinnacles based on sound analysis of the infrastructure and operational needs revenue sources and income, costs, and expenses, and deductions of Pinnacles.

Upon adoption of this decision the tariffed basic residential rates for Pinnacles will be set at $25 (exclusive of surcharges, fees or taxes) on July 1, 2020, and new rates for other Pinnacles services will be set as identified in this decision. There will be no further adjustments in its residential or business rates until the next Pinnacles general rate case.

8. Comments on Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) Robert W. Haga in this matter was mailed to the parties in accordance with Section 311 of the

Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on ___________, and reply comments were filed on __________ by ___________.

9. Assignment of Proceeding

Martha Guzman Aceves is the assigned Commissioner and Robert W. Haga is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. On December 1, 2017, Pinnacles filed this GRC Application seeking to update its intrastate rates and charges, adopt an intrastate revenue requirement, establish a rate design, modify rates, and increase its draw from the CHCF-A.
2. The Commission preliminarily categorized this Application as ratesetting, and determined that evidentiary hearings were necessary.
3. No protests were filed.
4. On August 1, 2018, a PHC was held to discuss the issues of law and fact and determine the need for hearing and schedule for resolving the matter.
5. A Scoping Memo was issued on October 15, 2018 setting forth the issues to be considered and determining that evidentiary hearings are no needed.
6. Pursuant to D.16-12-035 Pinnacles was authorized an 8.92 percent rate of return.
7. Applying the FCC corporate expense cap will cap the amount of corporate expenditures that can be recovered from the CHCF-A program but will not limit the amount of a company's corporate expenditures.
8. Pinnacles does not currently have any affiliate entities.
9. Pinnacles should continue to meet the service quality standards for the period of its general rate case.

10. Pinnacles may recover the difference in rates from the CHCF-A between the time the $24 basic rate is effective and July 1, 2020 when the basic rate shall increase to $25.

11. On December 22, 2017, federal legislation was passed, formally titled "To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, H.R. 1 (Tax Act)."

12. The most notable pertinent impact of the new federal legislation is the reduction in the federal corporate tax rate to 21 percent from 35 percent, effective January 1, 2018.

13. California's Small LECs have historically filed their general rate cases with a 34 percent tax rate calculated for their revenue requirement.

14. The change in federal corporate tax income rates results in excess net deferred income tax liabilities, which must be normalized for ratemaking purposes.

15. Deferred income tax reserves are the accumulation of differences between regulatory tax expense and federal tax liabilities.

16. Deferred tax reserves are ratepayer funds collected by the utility to account for future tax expenses.

17. The deferred income tax reserve in Pinnacles' case is a fund established by ratepayers in excess of Pinnacles' actual, lower future tax liability.

18. Normalizing excess deferred income tax does not constitute retroactive ratemaking.

19. Retroactive ratemaking occurs when rates approved at present or in the future are given an effective date from the past.

20. In Resolutions Nos. T-17616, T-17617, T-17618, T-17619, and T-17626 we authorized normalization of excess income tax reserve that resulted from the federal tax cut of 2017.

21. In Decisions 19-04-017 and 19-06-025 we authorized normalization of excess income tax reserve that resulted from the federal tax cut of 2017.

22. It is appropriate for Pinnacles to request a revenue shortfall differential between January 1, 2019 and the effective date of this decision.

Conclusions of Law

1. Pinnacles' Application for new intrastate rates and charges for telephone services in California, and draw from the CHCF-A should be granted.

2. Approval of Pinnacles' Application is reasonable because it affords Pinnacles the opportunity to provide "adequate, efficient, just and reasonable service" in a way that promotes the "safety, health, comfort, and convenience of [its] patrons, employees, and the public."

3. The Commission has been consistent that excess tax reserves must flow through back to ratepayers.

4. Approval of Pinnacles' Application is reasonable because it sets basic rates for Pinnacles' residential customers within the Commission's established all-inclusive reasonable range for residential customers, and ensures that CHCF-A support for Pinnacles "is not excessive so that the burden on all contributors to the CHCF-A program is limited."

5. The intrastate revenue requirement of $690,261 (inclusive of $436,052 in CHCF-A subsidy draw), based on the currently approved 8.92 percent cost of capital in D.16-12-035 for the 2019 test year, is reasonable and supported by the record in this proceeding, and should be approved.

6. Pinnacles' rate design as proposed and based on the following forecasted revenues should be approved:

   a. $90,999 in Local Network Services revenues;

   b. $144,920 in Interstate Universal Service Fund support for intrastate revenue requirement;

   c. $16,045 in intrastate access revenues;

   d. $2,245 in miscellaneous and uncollectible revenues; and

   e. The remainder necessary to fulfill revenue requirement from the CHCF-A, based on the $690,261 revenue requirement. Under the current approved 8.92 percent cost of capital, a CHCF-A draw of $436,052.

7. D.14-12-084 held that Basic Residential Service Rates for Small LECs like Pinnacles must be in a range of $30, inclusive of additional charges, to $37, inclusive of additional charges, and that rates within the range would be presumptively reasonable and non-rebuttable.

8. Raising the basic residential rate to $24 and the all-inclusive rate to $30.88 is reasonable for the period between the effective date of this decision and July 1, 2020.

9. Approval of Pinnacles' basic residential rate of $24 until July 1, 2020, resulting in an all-inclusive rate of $30.88, including the access revenue charge, is reasonable and should be adopted.

10. Raising the basic residential rate to $25 and the all-inclusive rate to $31.88 is reasonable on July 1, 2020.

11. Approval of Pinnacles basic residential rate of $25 beginning July 1, 2020, resulting in an all-inclusive rate of $31.88, after removal of the access revenue charge, is reasonable and should be adopted.

12. Approval of Pinnacles basic business single-line rate of 35.85, resulting in an all-inclusive rate of $43.92, is reasonable and should be adopted.

13. Approval of Pinnacles application to revise its rates for other services as set forth in its application and accompanying testimony is reasonable and those rates should be adopted.

14. The rate case costs of Pinnacles should be included within the corporate expense cap

15. Pinnacles should be required to file a Tier 2 Advice Letter informing the Commission of the revised revenue requirement within 30 days of the effective date of this decision. The advice letter should be effective for tariffs and services rendered as of the first day of the next month following the adoption of this decision. Within seven days of the date that the advice letter is effective, Pinnacles should notify its customers of the revised tariffs and rates.

16. Adoption of the Results of Operations for Test Year 2019 and Net-to-Gross figures in Appendices A and B based on the $25 basic rate is reasonable.

17. The Commission should rely upon the figures provided in Appendix A – "Pinnacles Telephone Company, Test Year 2019 Results of Operations" to (1) perform the means test to determine Pinnacles' annual CHCF-A support beyond calendar year 2019, and (2) for all purposes consistent with established and historical GRC processes practiced by all Commission Industry Divisions, including the Communications Division.

18. The CHCF-A support for test year 2019 should be the CHCF-A amount adopted and reflected in Appendix A to this decision.

19. Pinnacles' requests to file confidential materials, including confidential work papers, exhibits, and testimony discussed in Section 1 above, under seal should be granted for three years.

20. It is appropriate to authorize Pinnacles to submit a Tier 2 AL to the Commission's Communications Division within 30 days of the effective date of this decision to request any revenue shortfall differential between January 1, 2019 and the first day of the next month (resulting from the decision not being approved as of January 1, 2019), following the adoption of this decision (effective date), through the CHCF-A Fund. The AL should provide a calculation to "true-up" the revenue differential.

21. All pending motions in this proceeding not specifically addressed in this decision, or previously addressed, should be denied as moot.

O R D E R

IT IS ORDERED that:

1. The December 1, 2018 Application of Pinnacles Telephone Company for new intrastate rates and charges for telephone services in California and draw from the California High Cost Fund-A is granted, subject to the terms and conditions approved herein.

2. The motion of September 21, 2018 to admit the testimony of Pinnacles Telephone Company served on December 1, 2017 is granted.

3. The motions of September 21, 2018 and October 31, 2018 to admit the amended testimony served on September 21, 2018 and October 31, 2018 are granted.

4. The Commission adopts $690,261 for the purposes of Pinnacles Telephone Company's intrastate revenue requirement for the 2019 test year, end-user rates, and other service rates as set forth in this decision, such as rate of return, income

tax liabilities, depreciation, and requirements relating to service quality, safety and project reporting for the 2019 test year.

5. The Pinnacles Telephone Company's rate design for Test Year 2019 shall be based on the following forecasted revenue sources:

a) $90,999 in Local Network Services revenues;

b) $144,920 in Interstate Universal Service Fund support for intrastate revenue requirement;

c) $16,045 in intrastate access revenues;

d) $2,245 in miscellaneous and uncollectible revenues; and

e) The remainder necessary to fulfill revenue requirement from the California High Cost Fund-A, based on a $690,261 revenue requirement.

6. Pinnacles Telephone Company's assumed intrastate revenue requirement of $690,261 (inclusive of $436,052 in California High Cost Fund-A subsidy draw) is approved based on the currently approved 8.92 percent cost of capital in Decision 16-12-035, for its 2019 test year.

7. Basic residential rate of $24.00 per month, exclusive of any surcharges or taxes (which may include items such as access recovery charge, subscriber line charge and Extended Area Service) is adopted for the Pinnacles Telephone Company, and is effective on the first day of the next month following the adoption of this decision. A Basic residential rate shall of $25.00 per month, exclusive of any surcharges, fees, or taxes, is adopted for the Pinnacles Telephone Company, to be effective on July 1, 2020.

8. Within 30 days of the issuance of this decision Pinnacles Telephone Company shall file a Tier 2 Advice Letter with revised tariffs setting the basic residential rate at $24.00 per month, exclusive of any surcharges, fees, or taxes. Pinnacles shall file a Tier 2 Advice Letter with revised tariffs setting the basic

residential rate at $25.00 per month, exclusive of any surcharges, fees, or taxes, effective July 1, 2020. Within seven days of the effective date of the advice letter, Pinnacles shall notify its customers of the revised tariffs and rates.

9. Basic business rate of $35.85 per month, exclusive of any surcharges, fees, or taxes is adopted for the Pinnacles Telephone Company, and is effective on the first day of the next month following the adoption of this decision. Within 30 days of the issuance of this decision Pinnacles Telephone Company shall file a Tier 2 Advice Letter with revised tariffs setting the basic business rate at $35.85 per month, exclusive of any surcharges, fees, or taxes, effective July 1, 2019. Within seven days of the effective date of the advice letter, Pinnacles shall notify its customers of the revised tariffs and rates.

10. The revision of Pinnacles Telephone Company rates for other services as set forth in its application are approved effective the first day of the next month following the adoption of this decision. Within 30 days of the issuance of this decision Pinnacles Telephone Company shall file a Tier 2 Advice Letter with revised tariffs setting forth the revised rates for other services, effective July 1, 2019. Within seven days of the effective date of the advice letter, Pinnacles shall notify its customers of the revised tariffs and rates.

11. Pinnacles Telephone Company shall flow excess tax reserves back to ratepayers.

12. The Pinnacles Telephone Company shall continue to disclose all non-regulated revenues, including any and all revenues derived from General Order 69 C transactions, in its next general rate case application and testimony. If as with this application, there are none, Pinnacles shall so state.

13. The Results of Operations (Appendix A) is adopted for the Pinnacles Telephone Company for all purposes consistent with established and historical

General Rate Case processes practices by all Commission Industry Division, such as the California High Cost Fund-A means test done annually by the Communications Division.

14. Pinnacles Telephone Company shall follow the directions from the Commission's Communication Division to comply with the requirements of this decision.

15. Pinnacles Telephone Company is authorized to submit a Tier 2 Advice Letter to the Communications Division within 30 days of the effective date of this decision to request any revenue shortfall resulting from this decision not being approved as of January 1, 2019, through the California High Cost Fund-A. The Advice Letter must provide a calculation to "true-up" the revenue differential for the Test Year 2019.

16. All testimony served in this proceeding is admitted into the record of this proceeding. Confidential testimony is admitted and placed under seal.

17. Pinnacles Telephone Company's requests of September 21, 2018 and October 31, 2018, to place confidential materials under seal is granted for three years from the date of this decision. The above confidential materials shall remain under seal for three years. During the three-year period, this information shall not be publicly disclosed except on further Commission order or by an Administrative Law Judge ruling. If a party believes that it is necessary for this information to remain under seal for longer than three years, that party may file new motions showing good cause for extending this order by nor later than 30 days before the expiration of this order.

18. All pending motions in this proceeding that are not specifically addressed in this decision, or previously addressed in this proceeding, are denied.

19. Application 17-12-004 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.

Appendix A

Appendix A
Pinnacles Telephone Co.
Results of Operations
Test Year 2019
Intrastate Operations

		Pinnacles Proposed	Communications Division Proposed	Commission Adjustment [1]	Adopted
		A	B	C	D
Operating Revenues:					
1	Local Rev.	$ 88,995	$ 90,999	$ 2,004	$ 90,999
	Intrastate:				
2	Special Access Rev.	4,996	4,996		4,996
3	Switched Access Rev.	11,049	11,049		11,049
4	Interstate USF	144,920	144,920		144,920
5	Interstate Settlement Rev.	-	-		-
6	Miscellaneous Rev.	2,245	2,245		2,245
7	CHCF - A	438,056	436,052	$ (2,004)	436,052
8	Total	$ 690,261	$ 690,261		$ 690,261
Operating Expenses:					
9	Plant Specific	$ 117,834	$ 117,834		$ 117,834
10	Plt. Non-Spec.(less Depr.)	81,576	81,576		81,576
11	Customer Operations	27,509	27,509		27,509
12	Corporate Operations	250,654	250,654		250,654
13	Subtotal	$ 477,573	$ 477,573		$ 477,573
14	Depr. & Amort.	114,773	114,773		114,773
15	Other Taxes	6,702	6,702		6,702
16	State and Federal Income Taxes	25,525	25,525		25,525
17	Amortized Excess Deferred Income Tax	(3,258)	(3,258)		(3,258)
18	Total	$ 621,315	$ 621,315		$ 621,315
19	Net Operating Income	$ 68,946	$ 68,946		$ 68,946
Rate Base:					
20	2001 - TPIS	$ 3,537,746	$ 3,537,746		$ 3,537,746
21	2003 - TPUC	-	-		-
22	1220 - Mat. and Sup.	21,120	21,120		21,120
23	1500 - Other Regulatory Asset	291,667	291,667		291,667
24	Working Cash	46,680	46,680		46,680
25	Less: Accum. Depr.	3,092,241	3,092,241		3,092,241
26	Less: Deferred Inc Tax	32,039	32,039		32,039
27	Less: UEDTB	-	-		-
28	Less: Customer Deposits	-	-		-
29	Total Rate Base	$ 772,933	$ 772,933		$ 772,933
30	Rate of Return	8.92%	8.92%		8.92%

1 Cal Advocates Office was not a party to the proceeding.

(End of Appendix A)

Appendix B

Appendix B			
Pinnacles Telephone Company			
Test Year 2019			
Intrastate Operations			
NET-TO-GROSS-MULTIPLIER			
1	Gross revenue		1.00000
2	State Income Tax (Line 1 X 8.84%)		0.0884
3	Federal Taxable Income (Line 1 less Line 2)		0.91160
4	Federal Income Tax (Line 3 times .21)		0.191436
5	Net Income (Ln.3 Less Ln. 4)		0.72016
6	**Net-To-Gross Multiplier** (Ln.1 Divided by Ln. 5)		1.38857
	Support Development		
7	Intrastate Rate Base		$772,933
8	Rate of Return on Rate Base		8.92%
9	Return on Rate Base (Line 7 times Line 8)		$ 68,946
	(Net Operating Income with CHCF-A Support)		
10	Net Operating Income (without proposed CHCF-A)		$ (245,084)
11	Net Adjustment income only with CHCF-A Support		$ 314,030
	(Line 9 minus Line 10)		
12	Net to Gross Multiplier		1.38857
13	Gross CHCF-A Revenue Required		$436,052
14	Impact of CHCF-A on Proposed Rates		$0
15	Total CHCF-A Adopted Support		**$ 436,052**

(End of Appendix B)